

IMPERIAL OIL LIMITED

111 St. Clair Avenue West, Toronto, Canada

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Ladies and gentlemen:

Notes for remarks

Surveying the events of the last six months, I can't help but be reminded of the famous opening line from a Dickens novel: "It was the best of times, it was the worst of times"

by

As Bob Peterson has indicated, 1985 -- with its record earnings and other achievements -- was among the best of years.

W. J. Young

But there has been little time to savor those results, as we have been catapulted directly into one of the worst periods of uncertainty about petroleum pricing and demand. The good news about the bad news is that your company has emerged from 1985 in an excellent position to weather a stormy period.

Executive vice-president and
chief financial officer

Imperial Oil Limited

to

1986 Annual Meeting of Shareholders

Our debt is relatively low by industry standards, certainly well within our capacity to manage even if oil prices remain slack for some time. Our cash position is strong and will grow even stronger, as lower crude prices reduce the amount of money we have to pay to refiners. Our balance sheet is clean and healthy. The various measures deployed by the investment community to assess a company's financial position -- are all very sound.

In short, I'm pleased to report that your company is in excellent financial shape. What's more, we have already taken action -- and will take further steps as necessary -- to safeguard its financial health and soundness.

April 21, 1986

Toronto, Canada

Turning now to the results of the first quarter of 1986, Imperial Oil's operating earnings were \$65 million, a reduction of \$24 million -- or 26 percent -- from the first quarter of 1985. Earnings per share were 59 cents compared to 81 cents.

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Surveying the events of the past few months, I can't help but be reminded of the famous opening line from a Dickens novel: "It was the best of times, it was the worst of times"

As Bob Peterson has indicated, 1985 -- with its record earnings and other achievements -- was among the best of years.

But there has been little time to savor those results, as we have been catapulted directly into one of the worst periods of uncertainty about petroleum pricing and investment in recent memory. The good news about the bad news is that your company has emerged from 1985 in an excellent position to weather a stormy period.

Our debt is relatively low by almost any standard, certainly well within our capacity to manage even if oil prices remain slack for some time. Our cash position is strong and will grow even stronger, as lower crude prices reduce the amount of money we have tied up in inventories. Our balance sheet is clean and healthy. Our financial ratios -- those measures employed by the investment community to assess a company's financial position -- are all very sound.

In short, I'm pleased to report that your company is in excellent financial shape. What's more, we have already taken action -- and will take further steps as necessary -- to safeguard its financial health and soundness.

Turning now to the results of the first quarter of 1986, Imperial Oil's operating earnings were \$96 million, a reduction of \$34 million -- or 26 percent -- from the first quarter of 1985. Earnings per share were 59 cents compared to 81 cents.

Those results, which make it one of the best first quarters in the company's history, look pretty good when you consider that Canadian oil prices dropped by more than 50 percent during the quarter. However, behind the numbers lurks a disturbing trend. Most of the profit was made during January, before the full impact of falling prices was felt. Results deteriorated very considerably in February and March.

Looking at the results by operating segment, natural resources earned \$66 million during the quarter, \$25 million less than in the same period last year. In addition to falling oil prices, earnings were affected by an extended maintenance shutdown at Syncrude, which reduced our share of its production.

Those difficulties were partially offset by higher production of conventional oil from the Norman Wells project and higher bitumen production from Cold Lake.

In petroleum products, earnings dropped very significantly, to \$10 million this quarter from \$28 million during the comparable period last year. Those results, I would suggest, refute claims that petroleum refiners and marketers have been reaping windfall gains from falling oil prices. In fact, the first quarter was a very difficult period for Esso Petroleum. Product prices fell steadily throughout the quarter, even though most of the products being sold were manufactured from higher-priced crude oil purchased late in 1985.

In chemicals, earnings improved from \$3 million during the first quarter of last year to \$4 million this quarter. That's not a major increase, but it's encouraging, since the improvement resulted from higher prices for some key petrochemical commodities.

Results from a number of Imperial's other investments, including Building Products of Canada and our real-estate holdings, also improved during the quarter.

Overall, then, results from the first quarter were not as bad as might have been expected. And even though there may not be too many more pleasant surprises during the balance of the year, shareholders should be encouraged by the fact that our strong financial position allows us to face an uncertain future with considerable confidence.